

31761 116506361

CA1
T800
- 84D022

Canada. Task Force on Deep
Sea Shipping
Submission...



CA 1

T 800

— 84 D022

TEMPORARY ENTRY OF FOREIGN-BUILT VESSELS

INTO CANADIAN COASTING TRADE:

HOW ITS DONE AND WHAT IT MEANS TO
THE CANADIAN SHIPBUILDING AND ALLIED INDUSTRIES

PROBLEMS

AND

SOLUTIONS



Canadian Shipbuilding and Ship Repairing Association

801 - 100 Sparks Street, Ottawa, Ontario K1P 5B7

Telephone (613) 232-7127

Telex 053-4848

December 13, 1984



Digitized by the Internet Archive
in 2023 with funding from
University of Toronto

<https://archive.org/details/31761116506361>

TABLE OF CONTENTS

Page No.

- 1 - PREFACE
- 2 - WHAT ARE TEMPORARY ENTRY WAIVERS?
- 3 - THE 1/120th DUTY RATE
- 4 - CONCLUSIONS

Annexes

- A - Temporary Entries 1983 - 1984 (October 31)
- B - Vessels Under Construction Or On Order In Member Yards
by Type 1982 - 1984 January - September
- C - Employment Levels - CSSRA Yards; March 1982 - September 1984
- D - Temporary Entries - East Coast Offshore 1980 - 1984 (October 31)

PREFACE

Temporary entry waivers permitting foreign-built vessels to participate in the Canadian coasting trade are easily obtained and dutiable at a mere 1/120th per month of the value of the vessel. Temporary entry waivers are an attractive and inexpensive way to circumvent the spirit of the Customs and Excise Offshore Application Act, Canada's new tariff regulations for foreign-built vessels entering Canada. This Act, commonly referred to as Bill C-16, was passed in Parliament during May, 1984 and given Royal Assent on June 14, 1984. It applies a 25 and 20 percent duty, respectively, on all foreign-built vessels and rigs imported into Canada.

Temporary entries are occurring in record numbers -- especially for the East Coast offshore. There were 136 temporary entry waivers issued by the Water Transport Committee of the Canadian Transport Commission (CTC) during 1983, while another 97 waiver approvals occurred during the first 10 months of 1984. (See Annex A.)

This back door approach for importing foreign-built equipment is taking its toll on the Canadian shipbuilding and allied industries. The Canadian shipbuilding industry is essentially surviving on new government orders while commercial orders have virtually dried up in the past few years. Of the 31 vessels comprising 153,100 GT under construction or on order on September 30, 1984, 20 are for the federal government, seven are commercial orders, three are for provincial governments and one is for a Crown corporation. (See Annex B.) Employment in Canadian Shipbuilding and Ship Repairing Association (CSSRA) yards, which account for 97 percent of all ships built in Canada over 100 GT, was only 7,267 on September 30, 1984, a drop of 23 percent from January 1, 1983. In March 1982, employment in CSSRA yards was over 14,000. (See Annex C.)

The CSSRA fully recognizes the need for temporary entry waivers in emergency situations or when there are specific requirements for a type of vessel not built in Canada. But temporary entries are one of the major reasons the Canadian shipbuilding and allied industries are struggling through their worst recession since before World War II. In this presentation, we shall attempt to highlight the problems associated with temporary entries and propose rational solutions to correct this situation.

WHAT ARE TEMPORARY ENTRY WAIVERS?

The Canada Shipping Act limits the coasting trade in Canada to Canadian-built (or British-built and registered) ships. But if no suitable Canadian-built ships are available for certain work, foreign-built ships can be temporarily imported into Canada. To obtain a temporary entry waiver, operators must pay Revenue Canada a tariff based on 1/120th per month of the value of the ship. Over the past several years these temporary entries have occurred in record numbers, the majority for the East Coast offshore areas. Of the 97 temporary entry waivers issued during the first 10 months of 1984, 58 waivers, or 59.8 percent, were for the East Coast offshore. These vessels included 52 supply vessels, four drilling rigs, one heavy lift tanker and one drill ship. Forty-seven of the vessels were registered in Canada, four in the United Kingdom, three in the United States, two in Norway and one each in West Germany and Holland.

Seventy-five, or 55.1 percent, of the total 136 temporary entries for 1983, were for the East Coast offshore areas. These included 58 supply vessels, nine research vessels and eight drilling rigs. Thirty-nine vessels were registered in Canada, 17 in the United States, seven in Belgium, six in the United Kingdom, and two each in Panama, West Germany and Norway.

Temporary entries are easily obtained and there is currently no waiting period between application and when the vessel is required in Canadian waters. Time and again, it can be shown that application for a temporary entry waiver has been made at the last minute, thus negating any meaningful attempt by CTC officials to determine if a Canadian-built vessel is available to do the work required. The CSSRA has advocated that there be a waiting period between application and when the vessel is needed (except in emergency situations) so that a thorough search can be conducted to determine if Canadian-built equipment is available. The new Progressive Conservative government of Prime Minister Brian Mulroney promised during the 1984 federal election campaign to introduce a 30-day waiting period for temporary entry applications.

THE 1/120 TH DUTY RATE

As stated earlier, temporary entry waivers approved by the CTC are dutiable at the rate of 1/120th per month of the value of the ship. The minimum period for a temporary entry waiver is one month, but some waivers can be for several years. The duty is based on the market value of the vessel, which is constantly decreasing through depreciation, thus reducing the duty payments. Over the normal lifespan of a vessel, the temporary entry duty will be significantly lower than the regular 25 or 20 percent across the board duty on vessels or drilling rigs permanently imported into Canada.

This point is better illustrated using a hypothetical example. If a \$50 million vessel is permanently imported and registered in Canada, the duty would be 25 percent -- or \$12.5 million. If that same vessel is imported into Canadian service on a temporary entry waiver, the cost would initially be \$104,167 a month. This rate decreases as the value of the vessel depreciates. If the vessel depreciates 20 percent in the first year, the temporary entry rate would drop to \$83,333 per month during the second year. If the vessel depreciates 50 percent after three years, the duty would only be \$52,083 a month after three years. It should also be noted that these monthly waivers are paid in inflated dollars whereas the full 25 percent duty is paid in one lump sum.

Companies can actually make money on this arrangement by paying the small temporary entry duty rate and reinvesting the difference between it and the normal 25 percent duty at current market rates. The higher the prevailing interest rates, the more attractive and profitable the temporary entry duty rate looks to the operator.

The 1/120th duty was established when interest rates were about three percent. Although current rates have soared to about five times of that rate, the temporary entry duty remains at 1/120th per month.

The CSSRA has proposed that the temporary entry duty rate be at least doubled to 1/60th a month, in an effort to eliminate this attractive loophole. The 1970 Report of Inquiry on the Coasting Trade of Canada and Related Marine Activity advocated a doubling of the temporary entry duty rate to 1/60th per

month. The Progressive Conservative government is also on record supporting a doubling of the temporary entry duty.

Another development in the temporary entry process occurred after the former Liberal government's shipbuilding policy announcement of January 6, 1983. Over two dozen offshore vessels were given an additional degree of priority in the temporary entry selection process after June 30, 1983. These vessels, all foreign-built, Canadian-registered and no duty paid, were given special grandfather rights, allowing them to work the East Coast offshore area to the limit of the continental shelf. These grandfather rights are based on existing contracts and ownership and were established in an effort to not upset the offshore industry.

A total of 16 vessels were given grandfather rights to continue work off of Atlantic Canada. If these vessels are used without interruption for five successive years in the offshore or in Canadian waters, they will then be deemed duty and tax paid. Meanwhile, they pay the temporary entry duty only if operating within the 12 mile limit. An additional six vessels were given rights for an unlimited time to work on Canada's East Coast offshore area. A third group of five vessels were given limited rights. The third group's privileged position has now terminated.

CONCLUSIONS

Temporary entry waivers encourage the use of foreign-built ships in the Canadian coasting trade and deprive Canadian shipbuilders of much needed commercial work. If the aforementioned loopholes are closed, we are confident that the domestic shipbuilding and allied industries will expand, increasing employment opportunities throughout the Canadian economy.

The CSSRA also calls for other changes to existing government policy to help develop a competitive shipbuilding environment. We advocate the following:

- a) provide financial assistance for petroleum exploration activity only to companies that source in Canada or maximize Canadian content;
- b) include duty on imported fishing vessels 30.5 m (100 feet) or longer;

- c) provide concessionary financing to domestic shipowners;
- d) extend the government's Shipbuilding Industry Assistance Program (SIAP) another two years to June 30, 1987.

The CSSRA believes that if these changes are implemented, the Canadian shipbuilding and allied industries can employ, including the generating effect, over 42,000 Canadians. The Conservative government promised most of these changes during the 1984 election campaign, adding that revival of the shipbuilding industry is a "top priority". We now await timely government action on its election promises and an opportunity to contribute to Canadian economic recovery.

TEMPORARY ENTRIES 1983 - 1984 (OCTOBER 31)

1983 NUMBER OF VESSELS		1984 (Oct 31) NUMBER OF VESSELS	
BY FLAG		BY TYPE	
<u>EAST COAST OFFSHORE</u>			
39	Canada	58	supply vessels
17	United States	9	seismic research
7	Belgium	8	drill rigs
6	United Kingdom		
2	Panama		
2	Norway		
2	W. Germany		
<u>ARCTIC</u>			
4	Canada	4	barges
1	Norway	1	storage tanker
1	Holland	1	dredge
1	Liberia	1	oil carrier
1	United States	1	seismic research
<u>TANKER</u>			
5	Japan	7	chemical tankers
2	United States		
<u>CARGO</u>			
2	Canada	5	bulk carriers
2	Bermuda	4	general cargo carriers
1	Panama		
1	W. Germany		
1	Sweden		
1	U.S.S.R.		
1	Greece		
<u>BARGE</u>			
14	United States	15	barques
1	Canada		
<u>FERRY</u>			
4	Canada	4	passenger/auto ferries
<u>TUG</u>			
4	United States	4	tugs
<u>MISCELLANEOUS</u>			
8	United States	3	scows
3	Canada	3	research vessels
1	Denmark	2	submersibles
1	Norway	2	supply vessels
1	United Kingdom	1	cable layer
1		1	sailboat
1		1	hovercraft
1		1	salvage vessel

ANNEX A

52	supply vessels
4	drill rigs
3	heavy lift tanker
2	drill ship
1	
1	
1	
1	
4	barges
2	dredges
2	seismic research
6	Canada
2	Holland
4	Panama
2	Norway
6	chemical tankers
2	Panama
2	Norway
2	United States
1	Canada
1	France
1	Liberia
1	Norway
5	United States
1	Canada
1	United States
3	passenger/auto ferries
2	Canada
1	United States
5	barques
5	
5	tugs
2	United States
2	United Kingdom
2	Norway
2	cable layers
2	submersibles
1	tow boat
1	tug-supply

VESSELS UNDER CONSTRUCTION OR ON ORDER
IN MEMBER YARDS BY TYPE
1982 - 1984 JANUARY - SEPTEMBER
(Thousands of Tons)

<u>Type of Vessel</u>	1982 (Sept 30)			1983 (Sept 30)			1984 (Sept 30)		
	No.	TONNAGE		No.	TONNAGE		No.	TONNAGE	
		Gross	Comp.		Gross	Comp.		Gross	Comp.
Government	1	5.9	14.2	9**	26.1	55.9	20***	59.3	237.0
Tankers	--	---	---	--	---	---	--	---	---
<u>Cargo:</u>									
Barge	2	1.8	1.4	--	0.9	0.7	3	3.1	2.5
Others	1	0.4	0.5	1	---	---	--	---	---
Bulk Carriers	5	120.0	97.5	3	75.2	67.7	3	69.7	60.7
Tugs	5	0.8	4.2	3	0.6	3.0	--	---	---
Ferries	2	10.0	25.0	2	16.3	40.8	4	19.0	45.7
Fishing	1	1.8	5.3	--	---	---	--	---	---
Offshore Supply Vessels	6	16.3	43.6	1	1.5	4.4	1	2.0	6.0
Offshore Drilling Rigs and Offshore Structures	6	50.7	152.0	1	24.2	72.6	--	---	---
Miscellaneous	2*	35.8	73.2	--	---	---	--	---	---
Total	31	243.5	416.9	20	144.8	245.1	31	153.1	351.9

* Comprises 1 data collection vessel and 1 dry dock.

** Comprises 6 type 1100 navaids icebreakers, 1 72 m fisheries patrol vessel, 1 69 m hydrographic vessel and 1 25 m workboat.

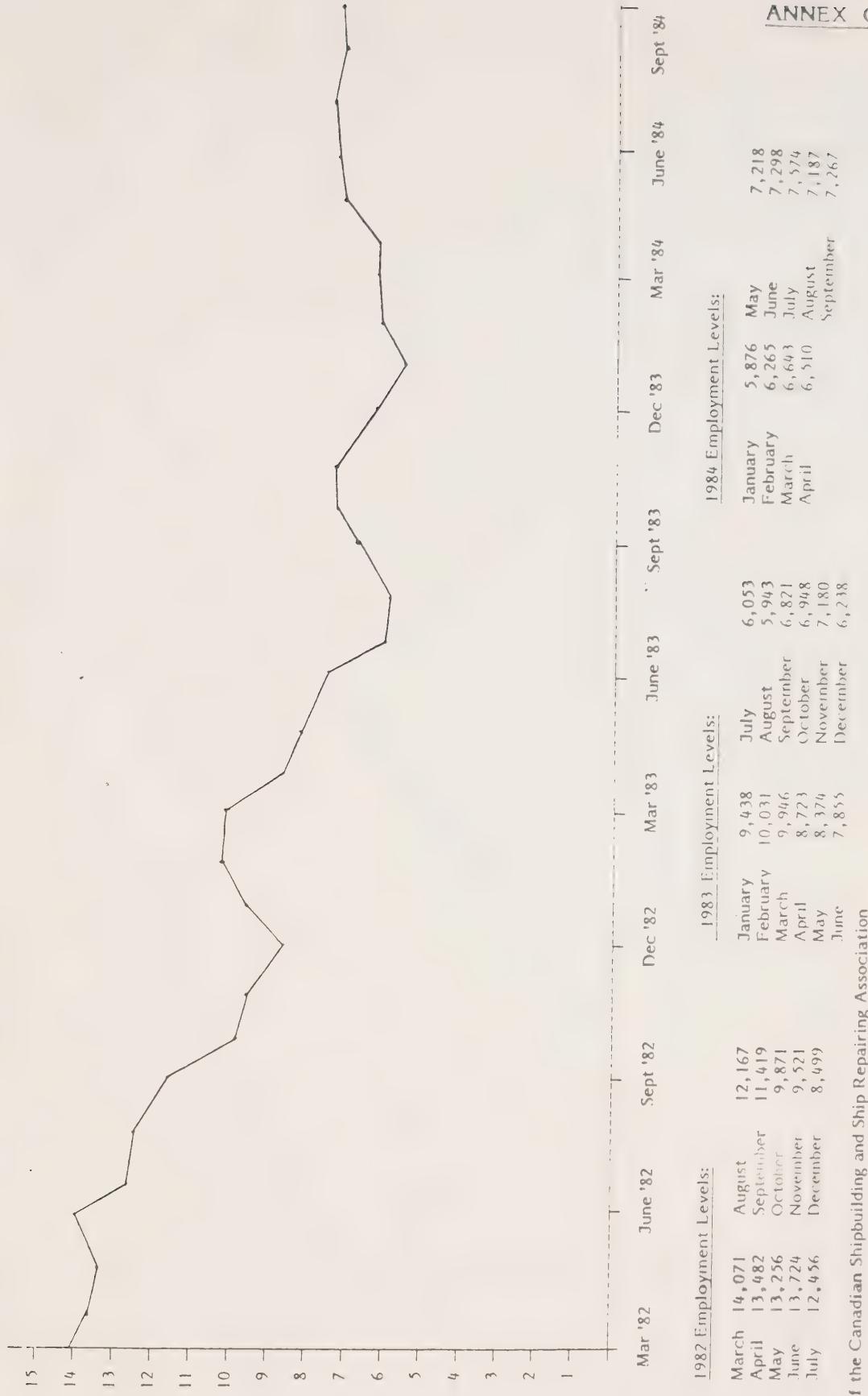
*** Comprises 6 patrol frigates, 6 type 1100 navaids icebreakers, 4 Fisheries and Oceans vessels, 2 type 800 navaids, 1 type 1200 medium icebreaker and 1 type 1050 navaids icebreaker.

Notes: 1) Government refers Federal Government Departments.

- 2) Compensated tonnage is the gross tonnage of a vessel adjusted to reflect manhours required in construction according to the O.E.C.D. formula and in some instances for specialized Canadian vessel types. From 1981, the factors have been further revised for Arctic Class vessels and barges.
- 3) Data for 1982 - 1983 have been revised.

Source: Members of the Canadian Shipbuilding and Ship Repairing Association

EMPLOYMENT LEVELS - CSSRA YARDS; MARCH 1982 - SEPTEMBER 1984



Employment in Thousands

1982 Employment Levels:

March	14,071	August	12,167
April	13,482	September	11,419
May	13,256	October	9,871
June	13,724	November	9,521
July	12,456	December	8,499

1983 Employment Levels:

January	9,438	July	6,053
February	10,031	August	5,943
March	9,946	September	6,821
April	8,723	October	6,948
May	8,374	November	8,180
June	7,855	December	6,238

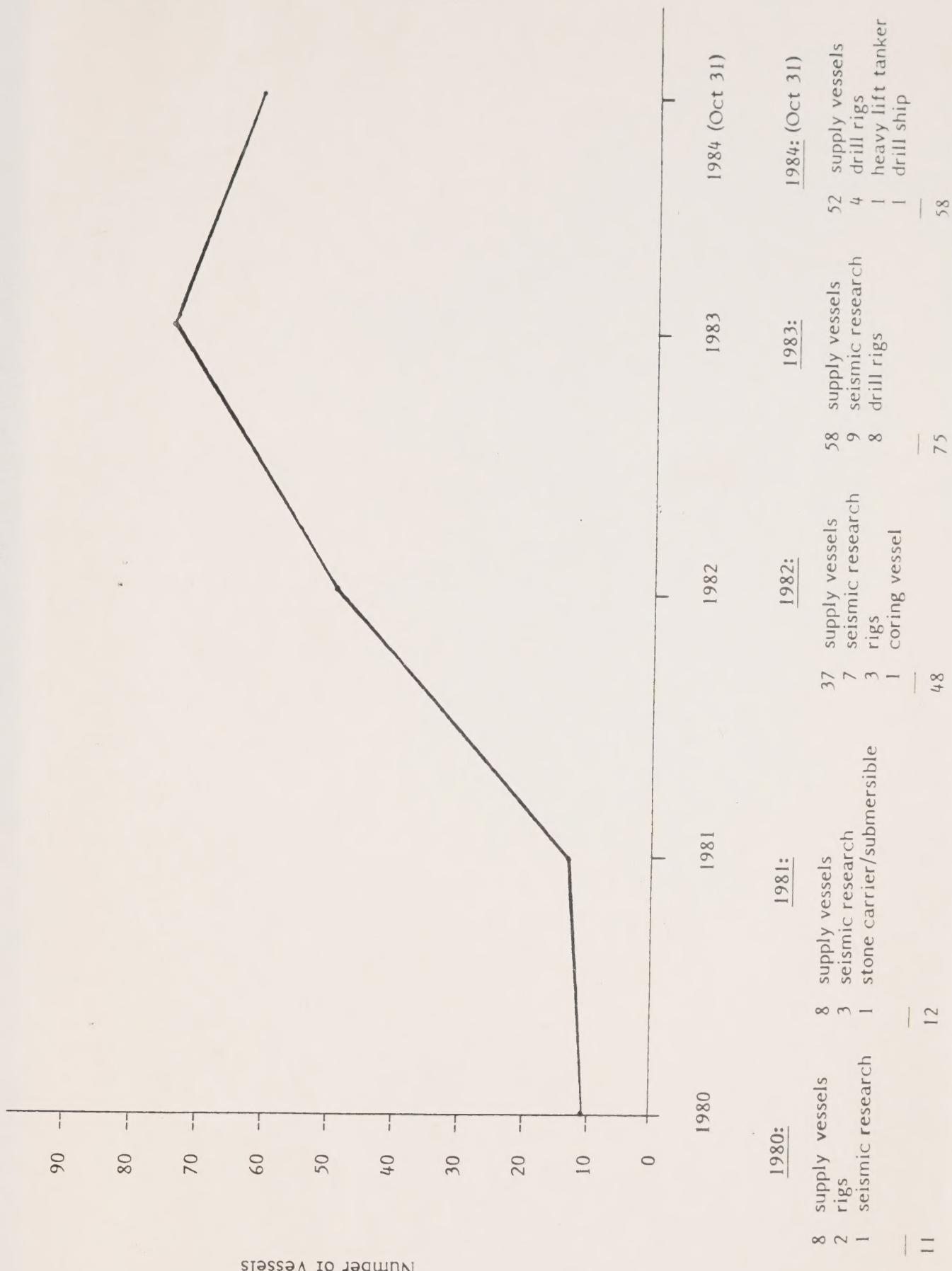
1984 Employment Levels:

January	5,876	May	7,218
February	6,265	June	7,298
March	6,643	July	7,574
April	6,510	August	7,187
		September	7,267

Source: Members of the Canadian Shipbuilding and Ship Repairing Association

ANNEX D

TEMPORARY ENTRIES - EAST COAST OFFSHORE 1980 - 1984 (OCTOBER 31)



21
22
23 - FEB 25 1988

